
Tobin & Co.

South Arm Township

Charlevoix County, Michigan

Audit Report

For the Year Ended March 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name South Arm Township	County Charlevoix
Audit Date 3/31/06	Opinion Date 5/31/06	Date Accountant Report Submitted to State: 6/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Accounting System for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

TOBIN & CO., P.C.

400 E. EIGHTH ST.

TRAVERSE CITY, MI 49686-2668

Certified Public Accountant (Firm Name)			
Street Address 231-947-0151		City	State MI
Accountant Signature <i>David S. Tobin</i>		Date 6-28-06	

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INTRODUCTORY SECTION

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Comments and Recommendations

We have audited the basic financial statements and the individual fund financial statements of South Arm Township, Charlevoix County, for the year ended March 31, 2006 and have issued our report thereon. As part of our examination, we made a study and evaluation of the Township's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Township's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of South Arm Township taken as a whole. As a result of our examination, we respectfully submit the following comments and recommendations.

General

All recorded revenues were deposited timely and intact. Board minutes were maintained in proper order, and supporting documents and follow-up procedures appeared to be good. The Clerk maintains a computerized general ledger which meets Uniform Accounting Requirements.

Budgets and Procedures

The Township prepared and adopted the required budget for its general fund. No budget was prepared for the newly established road fund.

General Fund

The general fund is presented on Schedule 1. Revenues exceeded expenditures by \$60,124. The fund balance at March 31, 2006 was \$313,950.

Road Fund

The Township Board established a separate Road Fund during the audit year to account for a millage voted in by the Township residents for the purpose of road improvements. There were no expenditures during the audit year and the fund balance at March 31, 2006 was \$155,633.

Current Tax Collection Fund

Property taxes collected were distributed to taxing units prior to the end of the fiscal year and distributions were in accordance with statutory requirements. This function was well handled by the Treasurer. Receipts were filed in order of payment and deposits were made timely and intact. Schedule 4 reflects the amount levied, collected and returned delinquent for the 2005 property tax levy.

Insurance and Surety Bond Coverage

Records indicate that the Township is insured through Burnham and Flowers and Municipal Underwriters of Michigan and has such coverage as fire and extended coverage, general liability, workmen's compensation, errors and omissions, etc. Coverage was reviewed by the Board in the audit year. The Supervisor, Clerk, and Treasurer and their deputies and the Zoning Administrator have surety bond coverage.

Payroll Procedures

Current payroll records and procedures appear good.

Other Data

After completion of our audit, we will submit the necessary copies of our report to the State Department of Treasury.

We commend the Clerk and Treasurer for the condition of the Township records. We also appreciate the courtesy extended our field examiner in the course of this examination.

Your confidence is respected. Please contact us if questions arise or assistance is needed.

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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITOR

To the Township Board
South Arm Township
Charlevoix County
East Jordan, Michigan 49727

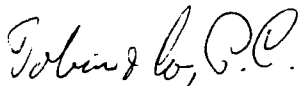
We have audited the accompanying financial statements of the governmental activities and each major fund of South Arm Township as of and for the year ended March 31, 2006, which collectively comprise the Township' basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of South Arm Township at March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise South Arm Township's basic financial statements. The schedules listed in the Table of Contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of South Arm Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



TOBIN & CO., P.C.
Certified Public Accountants
May 31, 2006

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SOUTH ARM TOWNSHIP MANAGEMENT'S DISCUSSION AND ANALYSIS

As the Township Board of the South Arm Township, Charlevoix County, we offer readers of the township's financial statements this narrative overview and analysis of the financial activities of South Arm Township for the fiscal year ended March 31, 2006.

Financial Highlights

The assets of South Arm Township exceeded its liabilities at the close of the most recent fiscal year by \$619,402. Of this amount, \$477,106 may be used to meet the Township's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, Township's governmental funds reported combined ending fund balances of \$469,583, an increase of \$215,757 in comparison with the prior year. \$313,950 is available for spending at the Township's discretion.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$313,950, or 189% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to South Arm Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

1. Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the Township's assets and liabilities, with the difference between the two reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Township's financial position is improving or deteriorating.

The **statement of activities** presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused credits, and used but not paid expenses).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the Township include: Legislative, General Government, Public Safety and Road Projects. South Arm Township does not have any business-type activities.

2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. South Arm Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of South Arm Township are categorized as governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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South Arm Township maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road Fund, which are considered to be major funds. All Township government activities are included in these two funds.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial resources because the resources of those funds are not available to support the Township's own programs.

The basic fiduciary fund financial statements can be found in Schedule 3 of this report.

3. Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

General Fund Analysis and Highlights

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund and the total fund balance was \$313,950. Unreserved fund balance represents 189% of total general fund expenditures.

The fund balance of the Township's general fund increased by \$60,124 during the current fiscal year.

There were no differences between the original budget and the final amended budget. The total dollars spent in general fund activities was \$46,666 less than appropriated.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Noteworthy exceptions are:

1. Town hall renovations included painting and new carpeting and ceiling fans.
2. There were several more zoning Board of Appeals applications than budgeted for.

Analysis of Balances and Transactions of the Other Township's Funds.

As noted earlier, the Township used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Road Fund

The Road fund is maintained by a voter passed Millage of 2 mils that expires in 2009 (this was reduced to 1.9452 by the Headlee Amendment rollback). At the end of the current fiscal year, the total unreserved fund balance was \$155,633. The fund balance of the Township's Road Fund increased by \$155,633 during the current fiscal year. The Township is accumulating funds to pay for future major road improvements.

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Condensed Financial Information

Net Assets

	Governmental and Total Activities	
	3/31/06	3/31/05
Current Assets	\$ 477,106	\$ 259,243
Capital Assets	421	421
Other Long-term Assets	<u>141,875</u>	<u>129,654</u>
Total Assets	619,402	389,318
Current Liabilities	-	-
Long-term Debt	-	-
Other Long-term Liabilities	-	-
Total Liabilities	-	-
Net Assets:		
Investment in Capital and		
Intangible Assets	142,296	130,075
Unrestricted	<u>477,106</u>	<u>259,243</u>
Total Net Assets	<u>\$ 619,402</u>	<u>\$ 389,318</u>

Activities

	Governmental and Total Activities	
	3/31/06	3/31/05
Program Revenues:		
Charges for Services	\$ 5,412	\$ 5,627
Operating Grants	2,968	-
General Revenues:		
Property Taxes	245,965	79,620
State Shared Revenues	124,542	121,981
Other	<u>3,376</u>	<u>2,150</u>
Total Revenues	<u>382,263</u>	<u>209,378</u>
Expenses:		
General Government	98,785	114,532
Public Safety	34,231	28,356
Public Works	<u>19,164</u>	<u>15,797</u>
Total Expenses	<u>152,180</u>	<u>158,685</u>
Change in Net Assets	<u>\$ 230,083</u>	<u>\$ 50,693</u>

Capital Asset and Debt Administration

Capital Assets

The Township's investment in capital assets for its governmental activities as of March 31, 2006, amounts to \$5,170. This investment in capital assets includes: several parcels of land and the Township Hall. All of our government funds report capital outlays as expenditures. However, the cost of the assets is allocated over their useful lives. This fiscal year the amount by which capital outlays exceeded depreciation and amortization was \$12,120. Intangible assets at March 31, 2006 consisted of major improvements to roads owned and maintained by Charlevoix County: Cost \$153,480 less accumulated amortization of \$11,605.

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Cash Assets

At the end of the current fiscal year, the Township had \$451,528 in cash and other spendable assets. This was held in an interest bearing Government Plus Account. The Township is limited by State law in how it can invest these funds and we have made no changes in our investment strategy in several years.

Long-term Debt

At the end of the current fiscal year, the Township had no bonded or installment debt outstanding.

Retirement Plan

The Township participates in a defined contribution pension plan through John Hancock Insurance. The plan covers all elected officials. The Township Clerk is the plan administrator. Township contributions to the plan were \$6,821. All the costs are paid by the Township. Covered payroll was \$28,328 for the 2005-2006 plan year out of a total payroll of \$44,766. The Township provides social security coverage for its officials and employees.

Currently Known Facts, Decisions, or Conditions

The Board plans to resurface and/or otherwise improve Township roads in the next four years.

Requests for Information

This financial report is designed to provide a general overview of South Arm Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Robert Christensen, Township Supervisor.

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South Arm Township Statement of Net Assets March 31, 2006

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u> <u>And Total</u>
Assets	
Cash	\$ 451,528
Delinquent Taxes Receivable	18,055
Prepaid Expenses	7,523
Capital Assets	
Land	421
Other Capital Assets, Net of Depreciation	-
Intangible Assets, Net of Amortization	<u>141,875</u>
Total Assets	<u>619,402</u>
Liabilities	
Total Liabilities	<u>-</u>
Net Assets	
Invested in Capital and Intangible Assets	142,296
Unrestricted	<u>477,106</u>
Total Net Assets	<u>\$ 619,402</u>

See Accompanying Notes to Basic Financial Statements

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South Arm Township Statement of Activities March 31, 2006

Functions/Programs	Program Revenues			Governmental Activities and Total
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Legislative	\$ 21,893	\$ -	\$ -	\$ (21,893)
General Government	76,892	200	-	(76,692)
Public Safety	34,231	5,212	-	(29,019)
Public Works	<u>19,164</u>	<u>-</u>	<u>2,968</u>	<u>(16,196)</u>
Total Governmental Activities	<u>\$ 152,180</u>	<u>\$ 5,412</u>	<u>\$ 2,968</u>	<u>(143,800)</u>
General Revenues:				
Property Taxes				245,965
State Shared Revenues				124,542
Unrestricted Investment Earnings				2,076
Miscellaneous				<u>1,300</u>
Total General Revenues				373,883
Change in Net Assets				230,083
Net Assets – Beginning				<u>389,319</u>
Net Assets – Ending				<u>\$ 619,402</u>

See Accompanying Notes to Basic Financial Statements

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South Arm Township Balance Sheet Governmental Funds March 31, 2006

Assets	General Fund	Road Fund	Total
Cash in Bank	\$ 307,621	\$ 143,907	\$ 451,528
Delinquent Taxes Receivable	<u>6,329</u>	<u>11,726</u>	<u>18,055</u>
Total Assets	313,950	155,633	469,583
Liabilities and Fund Balances			
Liabilities:			
Total Liabilities	-	-	-
Fund Balances:			
Unreserved	<u>313,950</u>	<u>155,633</u>	<u>469,583</u>
Total Fund Balances	<u>313,950</u>	<u>155,633</u>	<u>469,583</u>
Amounts reported for governmental activities on the statement of net assets are different because:			
Certain prepaid expenses of governmental activities are not financial resources and therefore not reported in the funds.			7,523
Capital and intangible assets used in governmental activities are not financial resources and therefore are not reported in the funds.			<u>142,296</u>
Net assets of governmental activities.			<u>\$ 619,402</u>

See Accompanying Notes to Basic Financial Statements

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South Arm Township
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2006

Revenues	General Fund	Road Fund	Total
Taxes	\$ 90,465	\$ 155,500	\$ 245,965
Licenses and Permits	1,125	-	1,125
State Grants	127,510	-	127,510
Charges for Services	4,287	-	4,287
Interest and Rents	2,049	133	2,182
Other	1,194	-	1,194
Total	<u>226,630</u>	<u>155,633</u>	<u>382,263</u>
Expenditures			
Legislative	24,058	-	24,058
General Government	76,892	-	76,892
Public Safety	34,171	-	34,171
Public Works	<u>31,385</u>	<u>-</u>	<u>31,385</u>
Total	<u>166,506</u>	<u>-</u>	<u>166,506</u>
Excess Revenues and net change in fund balances	60,124	155,633	215,757
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlay exceeded depreciation and amortization in the current year.			12,220
Increase in prepaid expenses reported as expenditures in governmental funds.			<u>2,106</u>
Change in Net Assets of Governmental Activities.			<u>\$ 230,083</u>

See Accompanying Notes to Basic Financial Statements

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South Arm Township Notes to Financial Statements March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

South Arm Township is a general law township located in Charlevoix County. Population as of the 2000 census was 1,844, and the current state equalized valuation for taxable property is \$138,044,500 and the taxable valuation is \$79,314,842.

The Township's basic financial statements include the accounts of all Township operations. The criteria for including organizations within the Township's reporting entity, as set forth in GASB No. 14, "*The Financial Reporting Entity*" includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Based on the above criteria, there are no other organizations included in these financial statements.

B. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the Township. The effect of interfund activity, within the governmental activities column, has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Township segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Township has presented the following governmental funds:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state distributions or grants, and other intergovernmental revenues.

Road Fund – This fund is used to account for a separate voted millage levied for road repairs and maintenance. Revenues are derived primarily from property taxes.

Fiduciary Funds

These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

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South Arm Township
Notes to Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund and agency fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Township considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenue susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

D. Budgets

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Township.

In the body of the financial statements, the Township's actual and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets for these funds were adopted to the activity or cost center level.

For budgetary purposes appropriations lapse at fiscal year end.

E. Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest is capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$2,500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Land Improvements	20 years
Buildings	40 years
Building Improvements	25 years
Furniture and Fixtures	10 years
Equipment	5 years
Vehicles	10 years

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South Arm Township Notes to Financial Statements March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Tax Procedures and Collections

Properties are assessed as of December 31 and the related property taxes become a lien the following July 1 and/or December 1. Real property taxes are collected by the Township Treasurer through February 28 of each year. As of March 1, uncollected real property taxes are returned delinquent to, and collected by, the County Treasurer. Personal property taxes remain the responsibility of the Township Treasurer to collect. It is the policy of the Township to record the real property taxes in the year of levy.

During the collection period prior to March 1, the Township Treasurer makes distribution of the property tax collections to the various taxing units (County, School District, etc.) as required by statute.

For the fiscal year the Township levied property taxes as follows:

	SEV	Taxable Value	Millage Rate
General Operating	\$138,044,500	\$ 79,314,842	.9726
Roads	\$138,044,500	\$ 79,314,842	1.9452

G. Investments

There were no investments during the audit year.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. We noted no violations of legal provisions and/or contractual provisions of various agreements related to financial matters.
- B. All funds had positive fund balances at March 31, 2006.
- C. Public Act 621 of 1978, Section 18, provides that a local unit shall not incur expenditures in excess of the amount appropriated. For the year ended March 31, 2006, three cost centers overexpended their budgets without formal amendment:

Township Hall and Grounds	\$	2,536
Planning Commission		89
Zoning Board of Appeals		1,463

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal Provisions for Deposits and Investments

Act 20, Public Acts of 1943, as amended by Act 217, Public Acts of 1982, and Act 196, Public Acts of 1997, states that the Township, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- (1) In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union complies with subsection (2).

Tobin & Co.

South Arm Township Notes to Financial Statements March 31, 2006

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

A. Legal Provisions for Deposits and Investments (Continued)

- (3) In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after date of purchase.
- (4) Repurchase agreements consisting of instruments defined in (1) above.
- (5) In bankers' acceptances of United States Banks.
- (6) Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (7) In mutual funds registered under the investment company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

The Township had \$452,528 deposited with local banks at March 31, 2006 with a carrying value of \$451,528. Interpreting the FDIC insurance coverage of \$100,000 of demand deposits and \$100,000 of time deposits per depository, the Township had \$252,528 of uninsured deposits at March 31, 2006.

NOTE 4 - CAPITAL AND INTANGIBLE ASSETS

Capital assets of governmental activities consisted of the following at March 31,

	<u>3/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>3/31/06</u>
Land	\$ 421	\$ -	\$ -	\$ 421
Buildings and Improvements	4,749	-	-	4,749
	5,170	-	-	5,170
Less Accumulated Depreciation	(4,749)	-	-	(4,749)
	<u>\$ 421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 421</u>

Intangible assets at March 31, consisted of major improvements to roads owned and maintained by Charlevoix County.

	<u>3/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>3/31/06</u>
Road Improvements	\$ 134,295	\$ 19,185	\$ -	\$ 153,480
Less Accumulated Amortization	(4,471)	(7,134)	-	(11,605)
	<u>\$ 129,824</u>	<u>\$ 12,051</u>	<u>\$ -</u>	<u>\$ 141,875</u>

NOTE 5 - LONG-TERM DEBT

The Township has no long-term debt at March 31, 2006, and no borrowing is anticipated in the near future.

NOTE 6 - LOANS AND ADVANCES BETWEEN FUNDS

There were no inter-fund loans or appropriations during the audit year.

NOTE 7 - INVENTORIES

South Arm Township does not maintain a substantial inventory of supplies or materials. Purchases are normally made as needed, and the items are recorded as expenses when purchased.

Tobin & Co.

South Arm Township
Notes to Financial Statements
March 31, 2006

NOTE 8 - RETIREMENT PLAN

The Township participates in a defined contribution pension plan through John Hancock Insurance. The plan covers all elected officials. The Township clerk is the plan administrator. Township contributions to the plan were \$6,821. All costs are paid by the Township. Covered payroll was \$28,328 for the 2005-2006 plan year out of a total payroll of \$44,766. The Township provides social security coverage for its officials and employees.

NOTE 9 - CONTINGENT LIABILITIES

Township officials are aware of no contingent liabilities on the part of the Township.

NOTE 10- COMPENSATED ABSENCES

The Township does not provide for the payment to employees for sick leave, accumulated leave, etc.

NOTE 11- RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the audit year the Township addressed these risks through the purchase of commercial insurance through Burnham and Flowers and Municipal Underwriters of Michigan. There was no significant reduction of insurance coverage from prior years nor have the amounts of any settlements exceeded insurance coverage in any of the past three fiscal years.

NOTE 12- PRIOR PERIOD ADJUSTMENT

The prior period adjustment resulted from unrecorded delinquent taxes receivable at March 31, 2005.

SUPPLEMENTAL DATA SECTION

Tobin & Co.

South Arm Township
Statement of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual
General Fund
For the Year Ended March 31, 2006

Schedule 1
Page 1

Revenues	Budgetary Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Taxes:				
Current Taxes	\$ 71,800	\$ 71,800	\$ 73,530	\$ 1,730
Delinquent Taxes	6,186	6,186	6,033	(153)
Penalties and Interest on Taxes	500	500	555	55
Property Tax Administration Fees	4,150	4,150	5,974	1,824
Summer Tax Collection	4,100	4,100	4,278	178
Swamp Tax	100	100	95	(5)
Licenses and Permits:				
Zoning	1,300	1,300	1,125	(175)
State Grants:				
State Shared Revenues	127,000	127,000	124,542	(2,458)
Metro Act	-	-	2,968	2,968
Charges for Services:				
Cemetery	200	200	200	-
Zoning	2,650	2,650	3,637	987
Land Division	1,000	1,000	300	(700)
Ordinance Sales	100	100	150	50
Interest and Rents:				
Interest	1,860	1,860	1,943	83
Lease	-	-	106	106
Other:				
Refunds, Reimbursements, and Miscellaneous	525	525	1,194	669
Total Revenues	221,471	221,471	226,630	5,159
<u>Expenditures</u>				
Legislative:				
Township Board:				
Salaries and Wages	-	-	3,000	-
Payroll Taxes	-	-	3,425	-
Pension	-	-	1,066	-
Supplies	-	-	537	-
Legal	-	-	5,124	-
Audit and Accounting	-	-	3,314	-
Dues	-	-	1,353	-
Printing and Publishing	-	-	268	-
Insurance	-	-	5,940	-
Other	-	-	31	-
Total	25,200	25,200	24,058	1,142
Total Legislative	25,200	25,200	24,058	1,142

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended March 31, 2006

Schedule 1
Page 2

	<u>Budgetary Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Expenditures (Continued)</u>	<u>Original</u>	<u>Final</u>		
General Government:				
Township Supervisor:				
Salaries and Wages	-	-	6,269	-
Pension	-	-	1,385	-
Total	<u>7,835</u>	<u>7,835</u>	<u>7,654</u>	<u>181</u>
Elections:				
Salaries and Wages	-	-	534	-
Supplies	-	-	44	-
Total	<u>3,960</u>	<u>3,960</u>	<u>578</u>	<u>3,382</u>
Assessor:				
Supplies	-	-	794	-
Postage	-	-	707	-
Contractual Services	-	-	21,253	-
Land Division Fees	-	-	80	-
Computer Program	-	-	3,275	-
Total	<u>26,350</u>	<u>26,350</u>	<u>26,109</u>	<u>241</u>
Clerk:				
Salaries and Wages	-	-	7,931	-
Pension	-	-	1,685	-
Supplies	-	-	436	-
Postage	-	-	96	-
Equipment	-	-	1,160	-
Total	<u>12,725</u>	<u>12,725</u>	<u>11,308</u>	<u>1,417</u>
Board of Review:				
Salaries and Wages	-	-	750	-
Printing and Publishing	-	-	356	-
Total	<u>1,557</u>	<u>1,557</u>	<u>1,106</u>	<u>451</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended March 31, 2006

Schedule 1
Page 3

	Budgetary Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<u>Expenditures (Continued)</u>				
General Government (Continued):				
Treasurer:				
Salaries and Wages	-	-	12,228	-
Pension	-	-	2,685	-
Supplies	-	-	1,767	-
Postage	-	-	1,096	-
Computer Program	-	-	62	-
Education	-	-	75	-
Capital Outlay	-	-	990	-
Total	<u>24,625</u>	<u>24,625</u>	<u>18,903</u>	<u>5,722</u>
Township Hall and Grounds:				
Salaries and Wages	-	-	987	-
Supplies	-	-	392	-
Contractual Services	-	-	998	-
Telephone	-	-	653	-
Public Utilities	-	-	2,077	-
Capital Outlay	-	-	5,029	-
Total	<u>7,600</u>	<u>7,600</u>	<u>10,136</u>	<u>(2,536)</u>
Cemetery:				
Contractual Services	-	-	1,098	-
Total	<u>2,000</u>	<u>2,000</u>	<u>1,098</u>	<u>902</u>
Total General Government	<u>86,652</u>	<u>86,652</u>	<u>76,892</u>	<u>9,760</u>
Public Safety:				
Fire and Ambulance:				
Contractual Services	-	-	18,550	-
Total	<u>19,500</u>	<u>19,500</u>	<u>18,550</u>	<u>950</u>
Planning Commission:				
Salaries and Wages	-	-	4,234	-
Dues	-	-	600	-
Printing and Publishing	-	-	33	-
Education	-	-	287	-
Total	<u>5,065</u>	<u>5,065</u>	<u>5,154</u>	<u>(89)</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended March 31, 2006

Schedule 1
Page 4

	<u>Budgetary Amounts</u>		<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>Expenditures (Continued)</u>	<u>Original</u>	<u>Final</u>		
Public Safety (Continued):				
Zoning Board of Appeals:				
Salaries and Wages	-	-	2,938	-
Mileage	-	-	45	-
Printing and Publishing	-	-	343	-
Education	-	-	242	-
Total	<u>2,105</u>	<u>2,105</u>	<u>3,568</u>	<u>(1,463)</u>
Zoning Administrator:				
Salaries and Wages	-	-	6,430	-
Supplies	-	-	108	-
Postage	-	-	156	-
Mileage	-	-	205	-
Total	<u>8,450</u>	<u>8,450</u>	<u>6,899</u>	<u>1,551</u>
Total Public Safety	<u>35,120</u>	<u>35,120</u>	<u>34,171</u>	<u>949</u>
Public Works – Roads	<u>66,200</u>	<u>66,200</u>	<u>31,385</u>	<u>34,815</u>
Total Expenditures	<u>213,172</u>	<u>213,172</u>	<u>166,506</u>	<u>46,666</u>
Excess Revenues (Expenditures)	<u>\$ 8,299</u>	<u>\$ 8,299</u>	60,124	<u>\$ 51,825</u>
Fund Balance – Beginning of Year			247,401	
Prior Period Adjustment			<u>6,425</u>	
Fund Balance – End of Year			<u>\$ 313,950</u>	

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
Road Fund
For the Year Ended March 31, 2006

Schedule 2

	<u>Budgetary Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Current Taxes	\$ -	\$ -	\$ 143,774	\$ 143,774
Delinquent Taxes	-	-	11,726	11,726
Interest and Rents:				
Interest	-	-	133	133
Total Revenues	-	-	155,633	155,633
Total Expenditures	-	-	-	-
Excess Revenues (Expenditures)	\$ -	\$ -	155,633	\$ 155,633
Fund Balance – Beginning of Year			-	
Fund Balance – End of Year			\$ 155,633	

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township
Statement of Changes in Assets and Liabilities
Current Tax Collection Fund
For the Year Ended March 31, 2006

Schedule 3

	<u>Balance</u> <u>3/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash	\$ <u>53</u>	\$ <u>2,304,031</u>	\$ <u>2,304,084</u>	\$ <u>-</u>
Total Assets	\$ <u>53</u>	\$ <u>2,304,031</u>	\$ <u>2,304,084</u>	\$ <u>-</u>
<u>Liabilities</u>				
Undistributed Taxes and Interest	\$ <u>53</u>	\$ <u>2,304,031</u>	\$ <u>2,304,084</u>	\$ <u>-</u>
Total Liabilities	\$ <u>53</u>	\$ <u>2,304,031</u>	\$ <u>2,304,084</u>	\$ <u>-</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township 2005 Property Tax Levy and Collections For the Year Ended March 31, 2006

Schedule 4

	<u>Millage Rate</u>	<u>Adjusted Levy</u>	<u>Collected</u>	<u>Returned Delinquent</u>
County	4.6276	\$ 370,739	\$ 345,224	\$ 25,515
County Transit	0.2461	19,708	18,183	1,525
Medical Care Facility	0.7128	57,109	52,680	4,429
Medical Care Facility Bond	0.5400	43,260	39,907	3,353
Senior Citizens	0.3938	31,547	29,100	2,447
Recycling	0.1476	11,819	10,902	917
State Education	6.0000	483,460	459,680	23,780
School District	19.4391	69,887	63,336	6,551
School District	21.5755	871,030	802,325	68,705
Intermediate School District	2.7022	216,497	199,705	16,792
Township - General	0.9726	77,916	71,883	6,033
- Roads	1.9452	155,500	143,774	11,726
- District Library	0.8742	64,431	59,526	4,905
Commercial Forest Reserve		174	174	-
Total		<u>\$ 2,473,077</u>	<u>\$ 2,296,399</u>	<u>\$ 176,678</u>
Percent of Levy Collected	92.86%			

The Notes to the Basic Financial Statements are an integral part of this statement.

Tobin & Co.

South Arm Township
Statement of Revenues, Expenditures and Balance
Property Tax Administration Fees
For the Year Ended March 31, 2006

Schedule 5

Revenues

Summer Property Tax Administration Fees	\$ 5,974
Summer Property Tax Collection Fee	<u>4,278</u>
Total Revenues	<u>10,252</u>

Expenditures

Assessor – 50%	13,055
Board of Review – 50%	553
Treasurer – 35%	<u>6,616</u>
Total	<u>20,224</u>

Excess Revenues (Expenditures)	<u>\$ (9,972)</u>
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The Notes to the Financial Statements are an integral part of this statement.